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VIRGINIA BUSINESS REPORT

BUREAU OF BUSINESS RESEARCH, SCHOOL OF BUSINESS ADMINISTRATION
THE COLLEGE OF WILLIAM AND MARY, WILLIAMSBURG, VIRGINIA

Report No. 271 **November, 1982**

Business in Virginia October, 1982, Data

Virginia's economy very much like that of the nation continues to be in the recession. It looked for a while as if both the U.S. and the Commonwealth were turning out of the bad times and into the good. Gross national product had been increasing, interest rates were falling, inflation was slowing, the stock market climbed, leading indicators rose, etc. In Virginia the total dollar volume of business (bank debits to demand deposits) took a turn for the better along with building permits and an easing of auto sales losses.

More recently, however, the revised national figures show no growth in GNP for the third quarter of this year and now for Virginia the bank debits (checking transactions) are showing a rise of only 11.0 percent over October of last year. During June through August they had been increasing at about a 21 percent average over the same period of a year ago. But in September the rate declined to a 15.7 percent mark and now it is worse at the 11.0 percent rise.

Since the economy of the Old Dominion generally lags the upturns in the nation, the immediate outlook for the state is not all that good. This means that the private sector is being affected as well as revenues for the public sector. What may turn the national economy around and hence that of the Commonwealth are actions on the part of the Federal Reserve System. Do not look to the lame duck Congress to do much in the way to help or decision making. They are only in a holding pattern. Even the new Congress does not look too helpful either as they may be locked into serious conflict with the Administration (see the back page).

The Fed, however, can lower interest rates and can increase the money supply for the short term. (Long run bulges in money will only bring back inflation.) Shorter rises in money can provide the necessary financing for both consumers and producers, especially if interest rates will continue to fall. Their increase would only postpone the recovery that much more.

Other Virginia indicators are the dollar value of building permits. They rose 27.4 percent this October over last. As this is a leading economic indicator for the construction business, it is a good omen and confirms some good increases in July and September (August faltered a little with a decline of 2.4 percent). The good news is shared nationally and is apparently in response to decline in both mortgage rates and home prices.

New car registrations were off only 2.5 percent this October as compared with a year earlier. Although still negative, at least they were not down the 17.4 percent average of the first nine months of this year.

Retail sales did improve some. They rose 5.0 percent which is about the same as the year-ago increase in the rate of inflation. In other words, they held their own.

Electricity consumed was up 3.6 percent, but newspaper advertising linage was off 2.8 percent with an almost 2.0 percent decline for year-to-date. Water consumption continued at a conservative rate of minus 0.5 percent in October and postal receipts rose a resounding 23.5 percent. Employment data for Virginia are not available as we go to press, but last month were a minus 0.3 percent which was not good for the job market.

(Continued on the back page)

Chart I

Nine Selected Business & Economic Indicators Percentage Change

Percentage Change October, 1982 from October, 1981

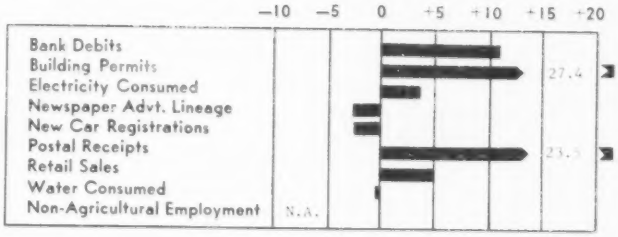
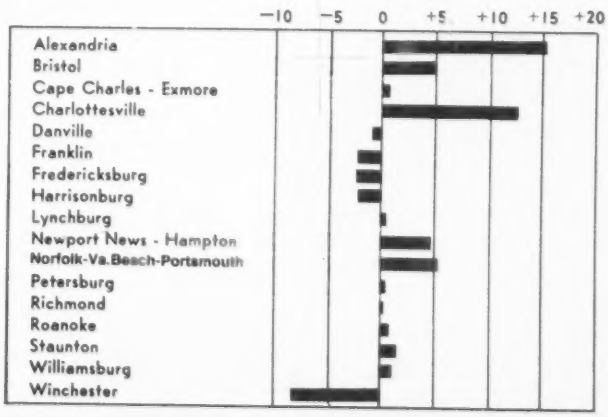


Chart II

City Indices

Percentage Change October, 1982 from October, 1981



SELECTED BUSINESS AND ECONOMIC INDICATORS
FOR 17 CITIES

TABLE I October, 1982

Monthly Index Number Comparisons of Current Month to Same Month in Base Period (1977) - Base Period = 100

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	POSTAL RECEIPTS
The State		247.5	125.5	98.3	106.9	67.6	N.A.	90.3	153.4	190.2
Alexandria	204.5	727.4	70.1	102.1	N.A.	82.0	N.A.	101.1	139.7	N.A.
Bristol	100.9	491.6	28.8	76.9	84.0	52.9	N.A.	66.0	79.0	200.0
Cape Charles - Exmore	112.7	138.2	199.8	98.1	N.A.	56.5	N.A.	N.A.	112.4	159.2
Charlottesville	163.4	215.0	557.5	99.2	N.A.	85.9	N.A.	114.1	203.1	183.9
Danville	116.7	N.A.	37.7	103.9	93.4	55.2	N.A.	91.0	142.0	164.3
Franklin	109.9	N.A.	52.8	90.8	116.6	62.3	N.A.	114.1	112.7	157.4
Fredericksburg	139.7	137.7	238.5	N.A.	120.4	92.0	N.A.	71.7	171.9	180.3
Harrisonburg	139.7	166.8	63.5	N.A.	127.8	46.2	N.A.	125.5	148.4	206.2
Lynchburg	180.3	352.1	67.9	96.1	N.A.	50.1	N.A.	114.9	151.2	375.3
Newport News - Hampton	175.4	165.4	103.2	89.7	103.9	54.4	N.A.	103.7	295.4	N.A.
Norfolk - Va. Beach - Portsmouth	197.2	106.1	148.2	103.0	113.6	63.7	N.A.	71.3	373.3	N.A.
Petersburg	104.7	104.9	5.7	N.A.	76.5	47.0	N.A.	97.9	122.9	142.9
Richmond	127.6	269.6	N.A.	100.4	104.9	59.3	N.A.	95.1	116.8	169.1
Roanoke	129.0	197.6	43.2	81.7	123.1	53.0	N.A.	96.3	142.3	182.8
Staunton	113.8	99.0	445.5	N.A.	N.A.	57.6	N.A.	N.A.	111.3	192.5
Williamsburg	130.6	142.3	128.0	126.9	N.A.	65.3	N.A.	99.4	140.0	190.7
Winchester	134.3	279.0	77.7	100.0	88.0	75.1	N.A.	109.5	118.7	201.1

TABLE II October, 1982

Percentage Change from same month last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	Sept. RETAIL SALES ‡
The State		11.0	27.4	3.6	-2.8	-2.5	N.A.	-0.5	5.0	1.9
Alexandria	15.1	40.5	-63.1	5.9	N.A.	2.7	N.A.	11.2	15.1	1.2
Bristol	5.0	21.2	0.0	-2.1	8.6	-23.7	N.A.	-17.4	17.8	6.9
Cape Charles - Exmore	0.7	3.3	-16.4	7.2	N.A.	4.5	N.A.	N.A.	-3.7	12.7
Charlottesville	12.5	18.3	522.8	31.4	N.A.	20.8	N.A.	2.3	4.8	3.5
Danville	-0.7	N.A.	-46.6	-0.7	-6.8	12.9	N.A.	-4.8	-1.9	-1.6
Franklin	-2.2	N.A.	49.1	-2.1	-1.5	2.7	N.A.	12.9	-9.2	5.1
Fredericksburg	-2.3	14.6	71.5	N.A.	-19.0	-1.3	N.A.	-32.1	7.3	0.2
Harrisonburg	-2.0	6.8	-18.2	N.A.	-4.9	-17.3	N.A.	4.4	-0.9	1.5
Lynchburg	0.4	11.8	-8.4	1.0	N.A.	-23.9	N.A.	0.6	4.5	-4.6
Newport News - Hampton	4.6	12.3	-14.8	4.4	-0.5	-5.5	N.A.	1.0	8.4	5.4
Norfolk - Va. Beach - Portsmouth	5.2	17.9	68.5	2.2	1.6	-7.3	N.A.	8.0	8.4	7.9
Petersburg	0.4	-10.3	-96.1	N.A.	3.4	12.2	N.A.	-0.2	-0.8	2.4
Richmond	0.2	6.1	22.0	2.0	-1.8	-8.9	N.A.	-4.4	2.9	4.0
Roanoke	0.9	4.0	68.0	2.1	1.2	-5.3	N.A.	6.3	-0.5	-2.4
Staunton	1.8	8.2	5.6	N.A.	0.5	-6.6	N.A.	N.A.	2.9	14.6
Williamsburg	1.2	3.9	148.0	2.1	N.A.	16.7	N.A.	-7.0	-2.4	-8.0
Winchester	-8.2	5.0	-22.1	-4.4	-38.3	17.6	N.A.	-12.7	-10.9	-6.6

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits, which is excluded because of its highly erratic nature.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.

N.A. — Not Available
O.O. — No Change

TABLE III

Percentage Change January - October from same period last year

CITY	CITY INDEX*	BANK DEBITS	BUILDING PERMITS	ELECTRICITY CONSUMED	NEWS-PAPER ADV LINAGE	NEW CAR REGIS-TRATIONS	NON AGRI-CULTURAL EMPLOYMENT	WATER CONSUMED	RETAIL SALES †	Jan.-Sept. RETAIL SALES
The State		21.5	0.4	1.7	-1.9	-16.3	N.A.	2.4	3.5	3.9
Alexandria	7.0	45.2	-50.7	4.5	N.A.	-15.6	N.A.	2.7	4.0	5.6
Bristol	-1.1	8.6	2.2	-2.7	0.8	-25.4	N.A.	-11.8	7.3	6.1
Cape Charles - Exmore	-1.1	6.4	-55.0	1.4	N.A.	-18.8	N.A.	N.A.	1.4	-5.6
Charlottesville	4.9	11.4	37.5	4.3	N.A.	-10.9	N.A.	6.4	7.6	7.4
Danville	2.5	N.A.	1.3	-6.6	-3.1	-28.2	N.A.	-8.8	21.3	1.0
Franklin	-0.7	N.A.	-22.0	0.1	-1.6	-8.8	N.A.	12.0	-2.1	-3.2
Fredericksburg	-2.2	16.1	-44.9	N.A.	-8.7	-10.8	N.A.	-17.2	1.7	1.9
Harrisonburg	-3.3	0.8	-67.4	N.A.	-0.6	-26.4	N.A.	2.7	0.1	5.9
Lynchburg	-2.3	18.0	-11.4	-1.1	N.A.	-22.8	N.A.	-11.5	0.5	-2.0
Newport News - Hampton	5.1	38.8	-19.9	1.2	-1.0	-19.7	N.A.	1.7	6.8	6.7
Norfolk - Va. Beach - Portsmouth	4.7	27.0	39.2	2.1	-3.0	-16.1	N.A.	19.1	2.9	4.2
Petersburg	-4.4	-4.8	-60.3	N.A.	-7.2	-18.6	N.A.	-4.6	1.4	3.0
Richmond	0.7	18.6	-38.3	2.0	-4.7	-13.3	N.A.	-2.9	2.0	3.1
Roanoke	1.5	14.4	-14.8	-2.6	2.6	-19.1	N.A.	2.3	4.7	2.5
Staunton	-2.6	-8.9	22.0	N.A.	-0.4	-19.0	N.A.	N.A.	4.3	1.8
Williamsburg	-2.0	12.1	35.1	3.2	N.A.	-6.7	N.A.	-8.6	-4.6	-1.4
Winchester	5.5	57.1	-27.5	0.9	6.9	-18.0	N.A.	-2.4	-0.1	-2.0

*Computation of City Index is based upon a weighted arithmetic mean of all business and economic components listed except Building Permits, which is excluded because of its highly erratic nature.
†Preliminary data based on a survey sample.
‡Revised data based on sales tax information which lags behind current reports.

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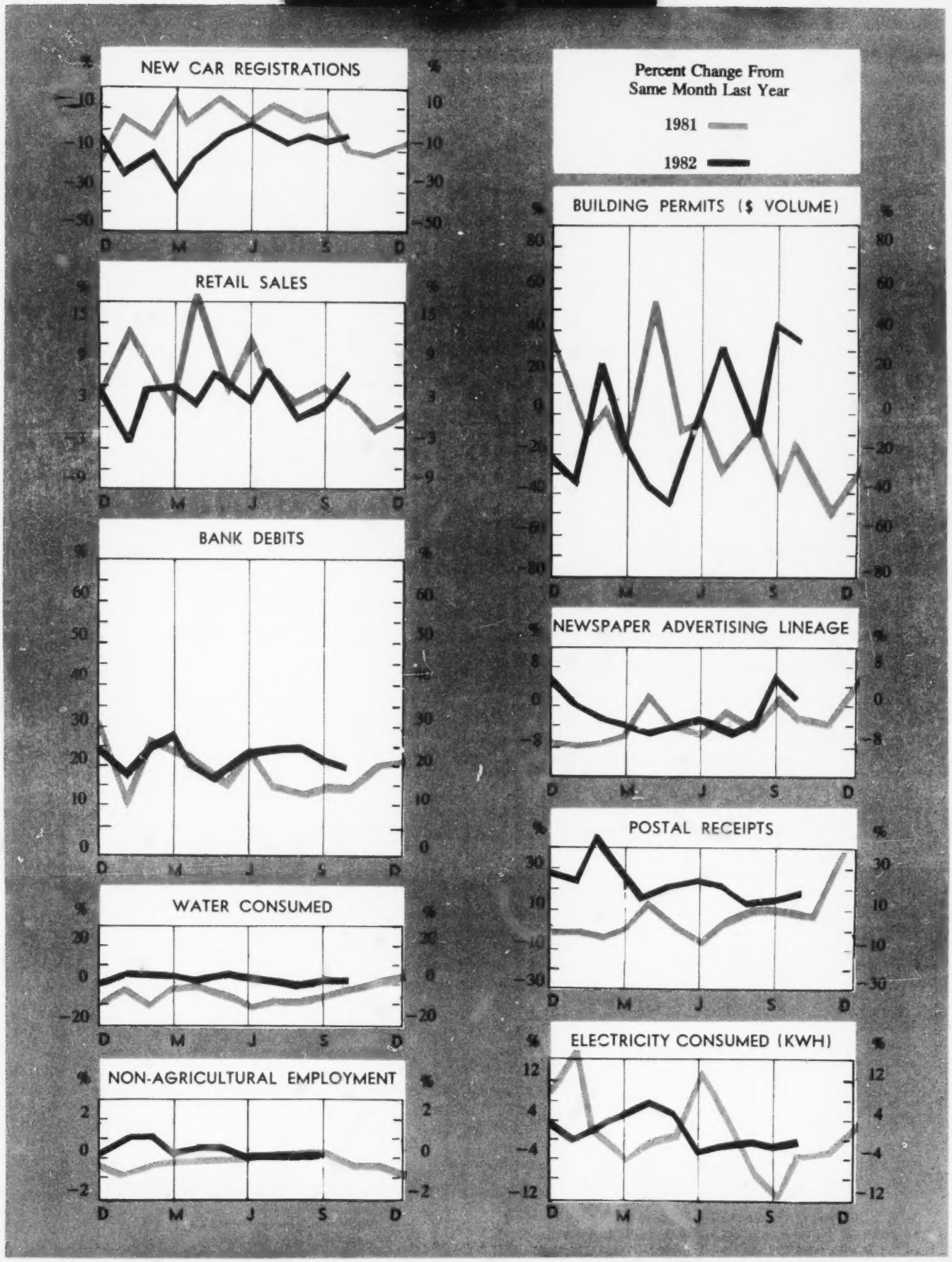

Reagan and Post Election Economics

Not too long after the November elections syndicated columnist David Broder brought to light what he and other political analysts saw as a message that the American people were sending to President Reagan. It was not one of repudiation but of a course correction: reduce the federal deficit, shorten the recession, slow defense spending, stretch out the tax cut, and stop the reductions in life-time supports.

Politically this seemed to be true. Although the Republicans did keep control of the Senate, they lost only 26 seats in the House rather than 35 or so they feared and the Democrats hoped for. This would have been a repudiation of the President's policies. Some losses were to be expected in the lower chamber, as this has happened consistently during this century with the one exception of 1934. The question is almost always the degree to which House seat losses will occur for the party in power. Since it was on the moderate side this time, Broder and others saw the results as a "course correction" rather than a repudiation.

If this be so, did President Reagan get the message? Being the politician he is, he surely understands he will not be able to put together his coalition of conservative Democrats and liberal or semiliberal Republicans from the north. He had enough trouble in the last Congress. Look at how his desires for spending cuts did not come in at some $55 billion or so, but were trimmed to $32 billion. Note also how his tax cut plan was diverted from January, 1981, to October, 1982, and then reduced to a pittance of 5 percent. If he could not get what he wanted through that Congress, how can he expect to get too much through this one which will not "stay the course" but "correct the course"?

The President, however, does not seem to have gotten the message. On November 19th the N.Y. Times News Service in a copyrighted article pointed out that "President Reagan has tentatively decided to seek $25 billion to $30 billion in domestic spending cuts in next year's budget." The article continues, "While the administration's initial bargaining position on domestic spending has now been staked out, difficult choices in the areas of defense spending and revenue increases remain to be settled in the next month." Yet, the "economizing drive on social spending cuts is the key part of Reagan's strategy."

It is interesting, however, that "both Democrat and Republican leaders in the Congress already have cautioned the administration that earlier social spending cuts of roughly $30 billion in each of the past two years leave little more to be wrung politically from that area."

The President's course seems clear. He will not balance the budget and he will continue to cut social programs so as to provide some money for his defense program which calls for increases of some $1600 billion dollars over five years. The hard line on reductions in social spending include politically sensitive areas: Social Security, federal pensions, veterans benefits, plus welfare and Medicaid to the poor.

The great need in defense has probably been as well expressed by the Allied Supreme Commander of NATO, General Bernard W. Rogers, as anywhere: "The Communist Warsaw Pact countries hold more than a 2-to-1 edge over us in both nuclear and conventional forces and the gap is widening." In his address to the NATO Parliament he asked on November 19th, "How long can we permit it to develop before it does truly become unmanageable and we feel political and economic pressure, coercion and blackmail from the East which we are unable to resist?" And "this power may permit the Soviet Union to achieve its long term goal of domination of Western Europe without having to fire a shot."

The nuclear aspects of the unbalance, however, do not seem to be the problem. According to the military experts, the nuclear-firepower capability of U.S. submarines is such that Russia could be wiped off the face of the earth by them alone. If this be the case, then a nuclear freeze is not so ridiculous as it might appear on the surface. Furthermore, it may be what General Rogers had in mind when he called in that same speech not for nuclear increases but for "conventional-weapons spending increases of four percent per year."

Yet, even if there were a nuclear freeze, this will not balance the budget. The most expensive part of military spending by far is not the nuclear but the conventional weapons and the ground and air forces to man them. Nor can cuts in welfare spending pay for the conventionals.

What then will be the result of President Reagan's efforts with the new Congress? Chances are very good he will not get nearly what he wants and even a little less than what he got out of the first Congress. How can the economy that is so badly recessed ever be productive enough to afford the President's program? Look at the slack even at the present time: 10.4 percent unemployment and likely to go higher plus 31.6 percent unemployment in industrial capacity.

There may, though, be some help from the Federal Reserve System in turning the economy around. Ever since October, 1979, the Fed has been slowing the increases in the money supply. This has brought down the rate of inflation from highs of 18 plus percent in early 1980 to a nine month average so far this year of 4.6 percent. It should be pointed out, however, that prices are still going up; it is only their rate of increase that has slowed. Therefore, they are still too high to bring buyers back into the market. But if the Fed continues this policy, it may convince buyers to come back, as they may feel a price plateau has been reached.

Where the economy can get help from the Fed is in its recent increases in the money supply and its reduction in the discount rate (interest it charges member banks when they borrow from the Fed). With slack in the economy, with interest rates coming down, and with increases in the money supply the Fed can turn the economy around and make it more productive with jobs for the vast majority of the unemployed.

This may be the President's secret wish and it may or may not happen, as the Fed is independent of the Administration. The President, however, may "stay the course" regardless, for he may see this as his righteous cause. Yet, the U.S. economy will not be able to afford his programs unless the recession ends and prosperity returns. In all this the President may be playing a political game with the Democrats and Tip O'Neil of striking the first blow and negotiating from there. Or it may be that he is virtuous. Yet, sometimes, as Albert J. Nock has pointed out, "Virtue is more to be feared than vice, because its excesses are not subject to the regulation of conscience."

LET

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